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Central Intelligence Agency



Washington, D.C. 20505

22 August 1986

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**Sarney's Visit to Washington: The Brazilian Political Context**

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**Summary**

President Jose Sarney comes to Washington with his popular support at unprecedented levels, and with growing credentials as an independent world statesman. To bolster his popularity at home, Sarney has turned his attention to foreign affairs, and has struck out in several new directions--a rapprochement with Argentina, a proposal for a "South Atlantic Zone of Peace", and increased attention to southern African affairs. Sarney apparently hopes to use his trip to Washington to put relations on a sounder footing. Nonetheless, he will want to avoid making concessions on bilateral trade issues because of restraints imposed by domestic politics. Sarney is currently under fire from leftists on wage controls, economic nationalists on protectionism, and his middle class supporters on his recent tax hikes. Moreover, he is facing key congressional elections in November with his coalition badly split. If the President can ease tensions with the US without appearing to make major concessions, he probably will increase his stature at home, and bolster the prospects of moderates in congressional elections, key to his ability to control the 1987 constitutional assembly. [redacted]

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**Sarney's Growing Confidence**

President Sarney, who succeeded to office upon the death of the popular president-elect Tancredo Neves in April 1985, faced an uphill struggle in gaining popularity and political legitimacy. A politician from Brazil's rural northeast, Sarney started without a reliable base of

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support and was saddled with a cabinet chosen by Neves. The congressional leadership--dominated by the center-left of the Brazilian Democratic Movement Party (PMDB), the major partner in the governing coalition--distrusted the President, who was the leader of the conservative, pro-government party in the latter years of the military regime. Because he broke with the military rulers in 1984 to form the centrist Liberal Front Party (PFL), however, he had also earned the enmity of influential service commanders. As a result, Sarney was considered an outsider when he assumed the presidency, and Rio de Janeiro Governor Brizola, the leading leftwing presidential contender, called for early presidential elections to replace Sarney. [ ]

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Against this backdrop, Sarney's political track record is surprisingly solid. By adroitly outmaneuvering his opponents, he carefully built a consensus in the fractious cabinet and congress during his first year in office in support of electoral and political party reforms, a constitutional convention for 1987, land redistribution, and expanded union freedoms. To win acceptance from the public, he replaced Neves's finance minister, who espoused highly unpopular austerity measures, with Dilson Funaro, an energetic advocate of economic growth. Sarney also carefully cultivated good relations with the military by supporting increased budgets for force modernization, resisting pressure for investigations into past human right abuses, and making high-profile appearances at military ceremonies. The economic growth of 8 percent that Brazil achieved last year--the highest rate in the world--also provided a major boost to Sarney's political fortunes. [ ]

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Major setbacks in the nationwide municipal elections held late last year chastened Sarney's coalition partners and politically strengthened Sarney. Public discontent with escalating inflation, state inefficiency and corruption, and crime in the streets led to a protest vote against PMDB candidates, especially in the major urban centers. As internal squabbling beset the PMDB, Sarney enjoyed increased freedom of action, and moved to exploit the popular desire for strong government action. In February, he reshuffled his cabinet--dropping many left-leaning ministers and appointing moderates of the Liberal Front Party--to strengthen support for his policies. In addition, he tightened his grip on the administration of the executive branch by naming conservative Marco Maciel as his chief of staff. [ ]

[ ] Maciel was given a broad mandate to help elect Sarney's supporters to office in the coming congressional elections by tapping into the Government propaganda budget, favoring key municipalities with funds and projects, and engaging in other pork barrel tactics. [ ]

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On the heels of the cabinet changes, Sarney announced a bold economic package--the Cruzado Plan--to combat raging inflation then accelerating towards an annual rate of 500 percent. He imposed wage and price controls, and deindexed the economy so that prices declined for the first time in the memory of most Brazilians. Initial public reaction was overwhelmingly favorable, and approval ratings for Sarney shot above 90 percent in the opinion polls. The move caught his leftwing opponents by surprise. For example, Brizola delivered a highly critical attack on Sarney's program, and drew a strong public backlash that forced him to back away from his call for early presidential elections. [ ]

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[REDACTED]

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**Domestic Concerns Resurging**

Despite the President's growing mastery of his job, he will face several potentially troublesome domestic challenges in the coming months. [REDACTED]

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His governing coalition is badly split in the key states of Sao Paulo, Rio de Janeiro, Minas Gerais and Rio Grande do Sul, and Sarney's efforts to end the squabbling and stage-manage critical campaigns have so far been ineffectual. Early political polling data indicate conservative rivals, like Sao Paulo gubernatorial candidate Paulo Maluf, as well as leftists, stand to make modest gains in the state and congressional races in November. Although we expect the basically moderate cast of the congress to remain intact, the election of more right and left-wing congressmen will make it difficult for Sarney to obtain support for his legislative initiatives. Its also heightens the prospects for conflict during the constitutional convention. [REDACTED]

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Simultaneously, leftist parties and unions, unhappy with the wage freeze and the slow pace of Sarney's land reform program, are planning to foment labor unrest and violent confrontations between squatters and landowners in an effort to embarrass the government prior to the elections. [REDACTED] Brizola is again attacking the Cruzado Plan, charging that it is resulting in a net wage loss to workers. His criticism is now being echoed by Lula da Silva, leader of the Marxist Workers Party. Lula's party--the fastest growing in Brazil--is closely allied with a militant labor federation, the Unified Workers Central, which is planning strikes and demonstrations against the government in October, according to the US Consulate in Rio de Janeiro. Meanwhile, [REDACTED] other leftist labor and political groups, including Communist party factions, are stepping up their union organizing and propagandizing in rural areas to gain supporters. Rural violence has already claimed several hundred lives this year, and is likely to worsen, in our view, despite the president's efforts to defuse tensions. [REDACTED]

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On the economic front, Sarney's Cruzado Plan will produce strong growth, sharply lower inflation--as of July the plan had reduced the average monthly inflation rate to 1 percent--and strong external accounts in 1985, but there clearly are problems beneath the surface. US Embassy reporting indicates the price freeze has touched off a consumer spending binge that is resulting in widespread shortages of basic goods. Investment remains depressed because of seriously eroded profits in several sectors. Sarney's recently announced adjustments to the program--heavy taxes on cars, gasoline, and foreign travel--have resulted in waning middle and upper class enthusiasm for the plan. US Embassy reporting also indicates that popular confidence in the government's policy has slipped because of Brasilia's unwillingness to cut its own spending in order to keep inflation down. [REDACTED]

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If the Cruzado program continues to veer off track, Sarney will be hard pressed to meet his public commitment to redress Brasilia's vast socioeconomic disparities. [REDACTED] domestic pressure is growing, especially among the left, to increase government social welfare spending as part of an inward-looking development strategy. These pressures limit Sarney's maneuvering room in undertaking public-sector economic reform, trade liberalization, and attracting new foreign investment. With many industries operating at or

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near full capacity, however, additional investment funds are sorely needed to maintain export and economic growth in the future. Recent statements by the Finance Minister suggest Brazil will bargain hard for debt repayment concessions from bankers in upcoming talks in order to maintain strong growth in the future. [REDACTED]

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### Diplomacy and Domestic Politics

In an apparent effort to bolster his popularity at home by projecting an image as a world statesman, Sarney has undertaken several diplomatic initiatives this year. Although Sarney generally supports the foreign policy objectives articulated by the previous military governments--achieving world power status, preserving an independent, non-aligned stance, and opening new export markets--he has also shifted emphasis to heighten Brazil's diplomatic profile abroad. [REDACTED]

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Sarney's recent summit with President Alfonsin of Argentina--Brazil's historical rival on the continent--highlights improved political relations, and laid the groundwork for economic integration and limited nuclear cooperation. During the July summit, Sarney probably broached to Alfonsin his "South Atlantic Zone of Peace" proposal which calls for the elimination of superpower naval, military, and nuclear forces in the region. Sarney probably intends to present the proposal at the next UN General Assembly session in order to enhance Brazil's chances to win a seat on the Security Council next year. The measure may also be designed to deflect attention away from Brazil's own growing potential to develop nuclear weapons, and pave the way for a larger role in southern Africa--particularly in the former Portuguese colonies, which Brasilia views as natural sphere of influence. [REDACTED]

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Raising Brasilia's rhetoric on apartheid to heated levels, Sarney personally attacked Pretoria on a recent trip to Africa. Although Brasilia has long criticized apartheid in international forums, Sarney probably believes that his rhetoric will enable Brasilia to take advantage of current political uncertainties in southern Africa--and African distrust of the Western powers--to increase its influence and trade with the "frontline" states. [REDACTED]

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[REDACTED] In addition, the US Embassy reports that Sarney plans to tour Angola and several other African nations next year to promote Brazilian exports, principally arms. [REDACTED]

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With the return to civilian rule last year, a slight thaw in relations with the Soviet Bloc has occurred, but Sarney has continued to move slowly in expanding ties. Despite the first trip to Moscow by a Brazilian foreign minister last December--a visit noted for its lack of substantive accomplishment--diplomatic ties remain cool and trade is limited. Brasilia has been largely unresponsive to Soviet attempts to expand technological cooperation, particularly in the "informatics" or computer area and fiber optics. Nevertheless, Brasilia recently agreed to Soviet participation in development of the vast strategic mineral reserves of the Carajas region. [REDACTED]

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[REDACTED]

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Bloc contacts with Brazilian leftists, however, have increased in the past year, particularly with the Marxist Workers Party. These contacts are likely to increase following Sarney's reluctant decision to restore relations with Havana after a hiatus of 22 years. This move was probably designed to prevent the left from exploiting the issue in the November elections. We believe that the Soviets and Cubans will continue to target the Workers Party for assistance and training because they view its longterm prospects as brighter than those of the small Brazilian Communist Party. [ ]

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### The Visit from Sarney's Perspective

Having demonstrated his administration's independence on foreign policy matters, Sarney apparently now wants to improve relations with the US. Sarney is sensitive to the fact that his approach to debt negotiations has cut against key precepts of the Baker Plan, that the US economic establishment has been troubled by Brasilia's refusal to negotiate a formal IMF program or settle fully its arrearages with the Paris Club, and that the White House has taken a special interest in Brazil's negotiations trade and investment policies. At least in part to offset such frictions, Sarney has cooperated with Washington in narcotics enforcement, assumed a limited, nonantagonistic role in the Contadora support group, and banned arms sales to Libya. In addition to putting relations on a sounder footing and establishing good personal rapport with President Reagan, Sarney probably believes that his visit to Washington--one of several overseas trips during the preelection period--is an excellent opportunity to enhance his stature at home. [ ]

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To achieve this, Sarney probably wants to sign an accord with the US at least partially settling the dispute over informatics which he could bring home as a diplomatic victory. [ ]

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[ ] Sarney was anxious to complete such an agreement before the visit, but the stalemate that developed in the recent round of negotiations in Paris appears to have dashed any such hopes. Nevertheless, we believe that Sarney may be prepared to express his commitment to an agreement on principles--rather than a detailed accord--which would defuse tensions, leaving specific cases of discrimination against US firms to future negotiation. [ ]

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[ ] In our opinion, Sarney probably believes that, if he appears to concede too much in Washington, he will be vulnerable to attacks by economic nationalists--on the left and the right--during the crucial election campaign this fall, thus making future concessions near impossible. At the same time, however, Sarney will probably renew his commitment to cooperate with US anti-narcotics efforts, emphasizing the need to wrap-up a new narcotics agreement that takes drug abuse education as well as enforcement measures into consideration. [ ]

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### Opportunities and Pitfalls

The summit is a major opportunity for Sarney to parlay a successful visit into support for moderate congressional candidates and his administration in the November elections. A politically strengthened Sarney, already favorably disposed towards the West, would work to retain moderate policies at home and abroad. Sarney wants to be able to control the next congress, which will sit as a constitutional convention, rewriting legislation covering the spectrum of Brazilian political, social, and economic life, including foreign investment codes. [ ]

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[REDACTED]

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**Sarney is likely to want to be viewed as an equal partner of the US and a world--not just a regional--leader. Nevertheless, he is still hesitant to accept fully the obligations of a major power because he recognizes Brazil is still an underdeveloped country with strong ties to the non-aligned Third World. We believe this underlies Brazilian sensitivity to issues of "sovereignty" and a desire for independence from--as well as partnership with--the US.** [REDACTED]

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**During the visit, we believe Sarney will operate under limits imposed by his domestic situation. The president's preoccupation with domestic worries and the limited amount of room he has to maneuver on bilateral trade disputes will likely make him cautious rather than bold in his discussions with US leaders. He probably will cite his domestic concerns in asking for US understanding of his negotiating limits.** [REDACTED]

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